Full-Year Report 2014

Lonza

Full-Year Financial Highlights

Core[1] Earnings million CHF		2014	Change in %	2013
Core result from operating activities (EBIT)		475	8.9	436
Margin in %		13.0		12.2
Core EBITDA		743	4.5	711
Margin in %		20.4		19.8
Core profit for the period		353	36.3	259
Core EPS basic	CHF	6.79	36.1	4.99
Core EPS diluted	CHF	6.76	36.0	4.97
Core RONOA in %		14.3	16.3	12.3

IFRS Results million CHF		2014	Change in %	2013
Sales		3,640	1.6	3,584
EBITDA		737	13.9	647
Margin in %		20.2		18.1
Result from operating activities (EBIT)		423	67.2	[2]253
Margin in %		11.6		7.1
Profit for the period		237	172.4	87
EPS basic	CHF	4.56	173.1	1.67
EPS diluted	CHF	4.54	171.9	1.67
Operational free cash flow		476	(8.3)	519
RONOA in %		10.3	74.6	5.9
Net debt		2,011	(4.4)	2,103
Debt-equity ratio		0.94	(4.6)	0.99
Number of employees		9,809	(1.3)	9,935

1 In the core results for the items “EBITDA”, “Result from operating activities (EBIT)”, “Profit for the period” and “Earnings per share”, the impact of amortization of acquisition-related intangible assets, impairment and reversal of impairment of assets, results from associates and other special charges / income from restructuring are eliminated. See also page 10.

2 Includes impairment of CHF 79 million and restructuring costs of CHF 46 million related to the phasedown of the Hopkinton site.

- Lonza delivered expected CORE EBIT growth of 11% in constant exchange rates (+9% in reported currency), supported by both the Specialty Ingredients and Pharma&Biotech segments
- Revenues grew by 3% in constant exchange rates (+1.6% in reported currency) to CHF 3.64 billion in reported currency
- Lonza’s 2014 CORE EBITDA margin of 20.4% exceeded original guidance given in 2012 for 2015, one year ahead of schedule
- CORE RONOA increased from 12.3% to 14.3% in 2014
- Operational free cash flow remained high at CHF 476 million
- Profit for the period increased by 172% to CHF 237 million
- CORE EPS increased to CHF 6.79, an increase of 36%
- Ongoing transformation is continuing to make progress
- The full impact of the recent decision of the Swiss National Bank is still to be determined as volatility continues in the financial markets
- Lonza’s Board of Directors is proposing an increased dividend to CHF 2.50 per share for 2014

Overview

In 2014 Lonza delivered expected CORE EBIT growth of 11% in constant exchange rates (CER) (+9% in reported currency) compared with 2013. This solid performance stems from various initiatives such as implemented growth projects, disciplined portfolio management and restructuring activities. Revenues grew by 3% in CER (+1.6% in reported currency) to CHF 3.64 billion in reported currency.

The transformation of Lonza from a product-focused organization into a market-driven one progressed well in 2014. Focus and work on previously announced corporate initiatives continued, and during the year projects accelerated and became more tangible. This effort resulted in increased profitability, the launch of new and innovative products in both segments and a stronger orientation towards our customers. Operational improvements and quality initiatives remained high on the agenda throughout the year; also we exceeded all our safety targets in 2014.

Overall, most of the businesses performed well; and we were able to partially offset substantially lower sales coming from the residential Water Treatment business, as well as the additional negative impact from lower-than-anticipated GDP growth rates and somewhat changed order patterns of our customers. Also, time-consuming, complex tech transfers and validations, as well as portfolio optimizations such as the Hopkinton, MA (USA) shutdown, had an impact on sales figures in Pharma&Biotech.

The reduction of crude oil and derivatives prices in the second half of the year were only partially recognized, as higher U.S. dollar and increased logistic costs partially absorbed the benefits. Strengthening of the U.S. dollar in the last four months of the year was appreciated. However, on average by the end of the year, the U.S. dollar was now only back at last year’s levels; and the improvement of the USD/CHF exchange rate compensated for some negative effects experienced in the first eight months.

The **Specialty Ingredients segment** had overall a solid performance throughout the year, with CORE EBIT growth of 13.0% in CER (+7.1% in reported currency), driven by market demand, more active portfolio management and marketing efforts, and the launch of new innovative products in several business units mainly in the second half of the year. It is furthermore expected that going forward, these new product launches, driven by the market need and customer requirements, will contribute positively. This increased demand resulted in high capacity utilization in most technologies.

Solid performance came from Consumer Care, as well as from Agro Ingredients, Industrial Solutions and Wood Protection. Our residential Water Treatment business in the Northern Hemisphere suffered from the extensive winter and the poor and cold weather conditions throughout the year. The good performance of the other Specialty Ingredients business units was not able to fully compensate for the substantially lower revenues in residential Water Treatment, which were below 2013 levels.

In the **Pharma&Biotech segment**, we have been able to substantially increase CORE EBIT by 15.2% in CER (+18.4% in reported currency). These positive developments were seen particularly with technologies like mammalian biopharma and antibody drug conjugates (ADCs) and were further supported by a solid project pipeline across technology offerings. Lonza will also continue to refocus its portfolio by concentrating on higher-margin products and projects. The product transfers either from our customers into our plants or within our manufacturing network were on a good track. However, these time-consuming, complex tech transfers and validations impacted sales figures in Pharma&Biotech. The accelerated manufacturing demand from customers resulted in a high number of successfully passed inspections.

Capacity utilization across the network was at budgeted levels. The markets recognized our enhanced market positioning, broad technology tool-box offerings, available capacity and continuous quality updates to meet regulatory requirements and to stay at the forefront of the market and the competition. Outsourcing and dual-sourcing trends continue intact. Long-term contracts were signed for new technologies, including immune therapy and viral therapy.

Operational Highlights

Early in 2014 our Microbial Development Services team successfully executed process transfers of four customer projects from Hopkinton to Visp (CH). The Hopkinton plant was phased down.

As announced previously, the niacinamide plant in Guangzhou (CN) ceased production as planned in the second quarter of 2014. The new facility in Nansha (CN) started up as scheduled in the third quarter of 2014, and since that time it has been manufacturing products according to plan and budget.

In the second quarter of 2014, the second large-scale ADC facility in Visp was started up as scheduled. Further commitments have been received for the new capacity with new early-phase contracts secured for this technology. Also in Visp our capacity expansion projects for Agro Ingredients are underway to secure the growing demand, especially for biopesticide development and manufacturing services.

Financial Summary

- CORE EBIT growth of 11% in CER (+9% in reported currency)
- CORE EBITDA margin of 20.4% exceeded original guidance given in 2012 for 2015, one year ahead of schedule
- CORE RONOA at 14.3% compared with 12.3% in full year 2013
- Revenues grew by 3% in CER (+1.6% in reported currency) to CHF 3.64 billion in reported currency
- Operational free cash flow remained high at CHF 476 million
- Profit for the period increased by 172.4% to CHF 237 million
- Financing costs reduced substantially due to lower interest rates
- Capital expenditure of CHF 180 million (CHF 210 million in 2013)
- Debt reduction on track, with net debt reduced to CHF 2.0 billion, resulting in a net debt/EBITDA ratio of 2.7 x and a net debt/equity ratio of 0.94 x.

Dividend

The Board of Directors is proposing a cash dividend of CHF 2.50 per share for 2014. Subject to approval at the Annual General Meeting, this dividend will be paid out of the reserve capital contribution and will be free of Swiss withholding tax.

Outlook

With all three Corporate Strategic Projects – Business Service Excellence, Manufacturing Footprint and Go-to-Market Excellence – the transformation of Lonza is on track and will continue in 2015 as planned. Our concentration on key markets and our clear customer orientation will continue and even accelerate. The Go-to-Market-Excellence program will continue to deliver valuable input for our sales force. New sales and marketing opportunities have been identified, driven by customers' desires for innovative and high-tech solutions coming from Lonza, as well as by new market and end-consumer needs.

To meet all these demands, we will continue to work on optimizing the manufacturing network and on reducing complexity overall. Available capacities are expected to experience higher utilization, based on new contracts signed in 2014.

In 2015 Lonza will continue to focus on improving operational efficiency with a stronger focus on embedding quality and balancing the portfolio with a more favorable product mix of higher-margin products and services. Lonza is well positioned for further measurable positive development in 2015.

Underlying business performance leads us to be confident we will grow sales and profits in 2015. However, due to the recent and unexpected volatility in financial and currency markets, we decided to re-evaluate our outlook and to provide guidance for 2015 at a later stage. Lonza continues to have a positive outlook for the future as we are well positioned in our markets. We have achieved a substantially better natural hedge with the Euro and U.S. dollar since the acquisition of Arch and a more balanced spread of our investments globally.

Mid-term guidance until the end of 2018 will be provided during the first quarter 2015 qualitative update on 28 April 2015.

Because of continued strong cash flow development and further improvement of our balance sheet, the Board of Directors is proposing to increase the dividend after four consecutive years of stable dividend payments to CHF 2.50 per share.

Our leadership and employees will continue to work resolutely on the objectives set.

We thank you, our internal and external stakeholders, for your continuous support for Lonza and for your engagement in our company.

Rolf Soiron
Chairman of the Board of Directors

Richard Ridinger
Chief Executive Officer

Specialty Ingredients
Segment

Specialty Ingredients million CHF	2014	Change in %	2013[1]
Sales	**2,154**	2.2	2,108
Core result from operating activities (EBIT)	**272**	7.1	254
Core EBIT margin in %	12.6		12.0
Core EBITDA	**360**	4.7	344
Core EBITDA margin in %	16.7		16.3

1 Reclassified to reflect transfer of the Visp (CH) shared infrastructure from Specialty Ingredients to Corporate

Lonza's Specialty Ingredients segment has made substantial progress since we implemented five business units, namely Consumer Care, Agro Ingredients, Industrial Solutions, Wood Protection and Water Treatment. Products were organized into the most appropriate group to allow us to concentrate on common customer needs and on innovation, interconnections and technology transfers with the Pharma&Biotech segment.

In 2014 our Specialty Ingredients segment delivered a solid financial performance with substantially improved profitability and more innovation. This innovation came from cross-business activities between the business units and other parts of the company. Our innovative approaches resulted in a noteworthy number of new product launches driven by market demand and our customers' desire for technologically led, environmentally friendly and affordable solutions.

Sales growth for Specialty Ingredients was in line with expectations, and the segment's CORE EBIT grew by 13.0% in constant exchange rates (+7.1% in reported currency).

Consumer Care

Hygiene
The Hygiene business delivered a solid year as opportunities in the formulated solutions and wipes platforms contributed strongly. Concerns about local and global pandemics (i.e., enterovirus and Ebola) and a heightened focus on food safety, hospital sterilization and hand hygiene – all buoyed our performance, especially in North America and Europe. The growth was broad-based across the professional and consumer market segments, as seen in the increasing sales to large multinational companies and to regionally strong organizations.

In the second half of 2014, reformulation of antibacterial hand soaps has now become a market imperative in the face of impending legislation and possible restrictions of certain existing biocides (e.g. Triclosan).

As part of the strategic path to bring ever-increasing forms of high-level disinfection to the healthcare markets, Lonza Consumer Care formally entered the instrument reprocessing market with the commercial launch of two products used in the disinfection of endoscopes.

Consumer Care is well poised to meet the demands of this highly regulated market segment with advanced registrations and formulation approaches already compliant with the U.S. Environmental Protection Agency (EPA) and European Biocidal Products Regulation (BPR), due for further promulgation in 2015.

Nutrition
In our Nutrition business, the commissioning and start-up of our new niacinamide facility in Nansha (CN) progressed successfully and in accordance with plan. This new facility ensures Lonza's leadership role in this important chemistry and will drive further manufacturing efficiency in vitamin B3 derivatives. The animal-feed markets strengthened globally in the second half of the year with the absence of Avian bird flu, which drove up niacinamide market pricing.

Conversely, niacin market pricing in human nutrition experienced a challenging year with known market conditions such as the decrease in cereal consumption with vitamin premixes and further deformulation in cholesterol-reduction supplements. The Carnipure™ business remained stable throughout the year as our product continued to be a preferred ingredient in energy and sports drinks globally. In pharmaceutical applications we initiated new longer-term clinical programs to investigate the efficacy of this ingredient in pet food, and clinical studies were launched to investigate its efficacy in combatting sarcopenia (i.e., muscle-wasting).

Personal Care

The Personal Care business remained strong in 2014 based on our well-established antidandruff business. Our participation with industry-leading brands strengthened, and our efforts to capture sales with other multinational customers were successful. Moreover, major private-label producers also commenced production, which raised market demand for this important ingredient. Demand for our zinc pyrithione technology is expected to strengthen further in 2015, especially as we enter adjacent market segments such as clinical odor control, which is replacing other deodorizing chemistries (e.g., Triclocarban) in bar soap and body wash.

Four new product introductions in 2014 highlighted the strategic path forward for Consumer Care into hair conditioning and skin-care leave-ons, with the latter category complementing a strong existing position in skin-care actives. Favorable customer acceptance resulted in sales of three of these new products already in 2014; and our skin-care emollient, Lonzest™ DC, completed the necessary Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) registration in Europe in the fourth quarter, thereby clearing the way for broader market sales.

Agro Ingredients

For our chemical and biotechnogical custom manufacturing services for the agrochemical market, the second half of the year was much better than the first half, which resulted in a significantly stronger 2014 compared with 2013. We observed good sales growth with all major innovative agrochemical companies. The plants were highly utilized both in chemical and biotech-fermentation manufacturing services.

On the innovation side, and benefiting from the interconnection with Pharma&Biotech, we successfully contributed to launches of four new active crop-protection products from these agrochemical companies. The new multi-purpose train in Visp (CH) that was started up successfully by the end of 2013 was highly utilized throughout 2014.

Meta™, Lonza's own branded slug- and snail-control active ingredient (molluscicide) in agriculture and home-and-garden applications, experienced favorable wet weather conditions with strong slug infestation in our main markets in Europe that exceeded last year's record level. We have obtained the registration for our own branded, formulated product Axcela™ in 10 countries, and the product has been successfully launched in each of these countries. The strategic geographic expansion with the active substance – as well as with specific formulations in NAFTA, South America, Asia and South Africa – is progressing according to plan.

In 2014 we announced a strategic agreement with our partner INCOTEC to develop, register and market Meta™-based seed coatings of paddy rice in Asia. This technology protects the plant in the first days of growth after direct-seeding against attacks from the rapidly growing and economically important golden apple snail.

Also the growth in our innovative offerings for formulation ingredients – e.g. the ready-to-use preservation agents (Proxel™) and pre- and post-harvest treatments (fruits and vegetables) for the agro industry (Frexus™ line) – reflects the ongoing demand from the industry for new solutions to improve crop-protection formulations with adjuvants and activators.

Industrial Solutions

Our Industrial Solutions business, which includes both our Coatings and Composites and our Performance Ingredients groups, performed better than expected due to generally strong market demand for our products. Several niche businesses performed particularly well. For most of the year, we faced foreign currency headwinds; but we were able to compensate for these challenges with strict cost control and careful management of our production assets.

Coatings and Composites

The Coatings and Composites business enjoyed strong demand throughout the year. Our building products group introduced several successful new biocide offerings to the paint industry. Our antifouling paint actives group was able to capture significant growth from the surge in demand from ship building, maintenance and repair activities in 2014.

We also introduced a new product that is gaining traction in the plastics protection market. Several further innovations are being prepared for launch in 2015 that target improved offerings to the leather protection, textile, building products and metalworking fluids markets.

Our composites business also experienced generally strong demand in the electronics and aerospace markets. We introduced several new Primaset™ cyanate ester resins designed for specific applications to these markets. In addition, two new resins designed for applications in the automotive/industrial market were launched.

Performance Ingredients

Lonza's Performance Ingredients business enjoyed generally strong demand throughout the year in all regions. Our chemical building blocks continue to make good progress in China as the pharmaceutical and crop protection industries move to more environmentally friendly production processes. Raw material prices were in general stable with some upward movement in the second half. The influence of the drop in crude oil prices at year end was not yet felt.

Our chemical building blocks products from our Visp site and our oleochemical derivates portfolio achieved excellent results in terms of volumes and revenues, while our portfolio of oil and gas products continues to grow. Lonza is becoming a recognized contributor to that industry.

Wood Protection

In 2013 Lonza decided to analyze the Wood Protection business and to perform a review of all strategic options. During the course of 2014, we experienced good momentum, improved market conditions, especially in the North American markets, and a more positive business outlook. An internal valuation resulted in an increased positive potential, but external offers during this review process did not reflect our internal valuation. Therefore, Lonza decided that this business unit would remain in Lonza.

Global Wood Protection sales ended the year ahead of the previous year. Especially in the Americas, sales of core products ended slightly ahead of target and above 2013 results. Economic tailwinds in North America with improvements in construction and home building led to increased sales coming from both the residential and industrial segments. The U.S. market also continued to expand with improvements in housing repair and remodeling spend. Big Box retailers, key independents and commercial dealers have reported solid treated wood sales and remain optimistic going into 2015.

In the EMEA region, the UK market is showing signs of growth and has a positive outlook. However, other countries in Europe (Germany, France, Italy, Spain and Portugal) are more unsettled and uncertain. Increased volume in EMEA, led by the South Africa utility-pole market, was largely offset by lower volume in South America due to competitive pressure. In the Asia-Pacific region, sales ended the year slightly below target but ahead of last year. Higher volumes in Australia driven by new framing product sales were offset by lower sales volumes in Southeast Asia due to slowing economic conditions and retreating consumer confidence.

Production-capacity utilization has met the business's expectations on all sites. On the innovation side, several projects have been initiated and some are showing promising first results. The oil-based product for replacement of creosote in EMEA moved to the final development stage. Creosote is used to treat railroad sleepers and utility poles in Europe and is under regulatory pressure throughout Europe. We have both water- and oil-borne replacement products in development that will serve as a more acceptable alternative treatment formulation for customers.

Our BARamine™ roll-out in EMEA continued, and the product was successfully launched in the U.S. market in 2014. BARamine™ chemistry utilizes Lonza's patented Carboquat™ technology that improves the efficacy against rogue fungi, the penetration in refractory wood species, and the throughput in treatment plants.

Water Treatment

Our Water Treatment business includes both our Residential and our Industrial, Commercial, Municipal and Surface Water (ICMS) groups. In addition to being one of the world's largest suppliers of sanitizers and other treatment chemicals for pools, spas and water parks, we are also growing sales in the treatment of surface waters, as well as water for drinking, agriculture, irrigation, food processing and industrial applications.

Residential

The Residential Water Treatment business was substantially impacted by unfavorable weather conditions for the second consecutive year, especially in the largest markets in Europe and in North America, and, as such, weighs heavily on our overall performance. Growth in South America was not able to offset the significantly lower sales in the other markets.

Other market drivers such as fewer new pool starts, consumer conversions to smaller pools and salt chlorine generators had a negative impact on sales for this segment. Recent restructuring from a regional water business to a global organization has been initiated, and it will focus on global synergies and harmonization while leveraging our regional knowledge strengths.

On the innovation side, in Residential Water Treatment, we have successfully launched the Blue Tec brand in Europe and targeted the DIY category. The re-launch of HTH® Clear 4 Weeks to grow Lonza share of the all-in-one sanitizer category in South Africa was very successful and experienced solid market demand. Sales of the innovative HTH® Mineral Brilliance product in South America continue to improve, and the product was also introduced in North America and Europe.

ICMS

Our Industrial, Commercial, Municipal and Surface Water (ICMS) business started to build a global management structure and reorganized regional teams in 2014. The intention to strengthen the ICMS business is a major task with the aim to become more independent of the weather in the Residential Water Treatment business. However, to reach a more balanced structure between Residential and ICMS, Water Treatment will require some years before reaching our target.

Further successes in North America came from our sanitizing feeder systems for drinking water applications. For example, in Long Island, NY (USA), one-third of the municipal drinking water is sanitized with our systems. In the United States, we have also established strategic partnerships with agro markets. We offer top-of-the-line feeder systems to deliver clean drinking water, maintain and enhance surface water, and provide sanitizing solutions within the agriculture industry.

Our South American business was characterized by strong performance in industrial water applications, such as for sugar cane, for the beverage segment and for bio-incrustation hydroelectric power plants. We are strongly supporting the fight against the Ebola virus in West Africa with Lonza products.

Pharma&Biotech
Segment

Pharma&Biotech million CHF	2014	Change in %	2013
Sales	**1,446**	1.4	1,426
Core result from operating activities (EBIT)	**245**	18.4	207
Core EBIT margin in %	16.9		14.5
Core EBITDA	**385**	9.1	353
Core EBITDA margin in %	26.6		24.8

Pharmaceutical and biotechnological companies must innovate to combat illnesses and chronic diseases and to help patients throughout the world to either survive or live longer. Scientists and researchers are continuously looking for new technologies to support pharmaceutical and biotech companies as they develop their drugs further.

Lonza's Pharma&Biotech segment, with our business units Custom Manufacturing Services, Custom Development Services and Bioscience Solutions, substantially increased CORE EBIT by 15.2% in constant exchange rates (+18.4% in reported currency). We are well positioned for 2015 and beyond to serve all types of customers and their patients because we offer a broad technological offering that covers today's scientific and market requirements.

Over the years we have understood from our customers that a sound track-record, highest quality standards and manufacturing capabilities on all different scales are critical for them. Our customers also have recognized and appreciated that Lonza emphasizes the development of robust and scalable manufacturing processes, already in early clinical trials. With this approach we can ensure that at a later stage during scale-up and larger-scale production, time- and cost-consuming adaptations of manufacturing processes can be avoided. This competitive advantage is highly appreciated by our customers.

Driven by increasingly stringent behavior of the regulatory bodies worldwide, Lonza remains committed to adhering to higher levels of safety and quality. The measures taken in 2014, including the investments required for being compliant, ensure that Lonza will continue to be a reliable partner with high quality.

Custom Manufacturing

In 2014 Lonza benefited from solid outsourcing and dual-sourcing trends in the marketplace. The main drivers were the risk mitigation strategies by large pharmaceutical companies to avoid potential supply shortages and the stricter scrutiny of regulatory authorities, so customers looked for reliable partners like Lonza. In addition, Lonza was able with its existing capacities to accommodate manufacturing demand across technologies. These factors resulted in additional contracts for commercial and clinical-stage products.

Product transfers of clinical-stage candidates from small- or mid-scale manufacturing into larger-scale, combined with the direct technology transfers from our customers into our large-scale facilities, resulted in various qualification and validation campaigns. In 2014 these changes led to many customer inspections and regulatory audits, which were all successfully passed. The capacity utilization and output improved compared with 2013 and will improve further as commercial manufacturing will be the next step after the qualifications and validations are executed.

Market interest in new technologies is rising constantly, particularly for antibody drug conjugates (ADCs), cell therapy and viral therapy. Product interest in the new class of immuno therapy is also on the rise.

A long-term commercial contract was signed in late 2014 with Bristol-Myers Squibb for a product in late clinical Phase III trials. This product received FDA approval in late December 2014.

In the area of viral therapy, we signed a long-term manufacturing and supply agreement with Celladon for Mydicar®. Celladon expects to report results from the Phase 2b clinical trials in April 2015.

In general, both cell and viral therapy experienced strong pipeline development, and products are advancing through the pipeline. In cell therapy new market opportunities are opening in Japan through regulatory decisions to support regenerative medicines, so Lonza is focusing on developing partnerships to capture growth opportunities in this market. Our Singapore facility for cell therapy has successfully completed inspection by the Singapore Health Science Authority (HAS) and received a manufacturing certificate.

Lonza's second ADC facility at the Visp (CH) site started up successfully in 2014 with rising demand driven by fast-growing product pipelines and clinical trials. Future early-phase projects have been secured for this facility. Lonza is the only approved large-scale manufacturer of ADCs globally. Our customers around the world appreciate having a one-stop-shop option as Lonza offers mammalian cell and cytotoxic manufacturing, as well as the conjugation of both elements on all scales while meeting strict Good Manufacturing Practices (GMP) requirements.

Custom Development Services

Once again in 2014, we have experienced growing customer demand across technologies. We have strengthened some of our core technology platforms to address industry challenges. For example, the new sequence variant analysis via mass spectrometry provides our customers with the ability to detect critical risk factors early, which increases the chances of success for their project.

The diverse XS™ Microbial Expression Toolbox also provides high-quality solutions for meeting the challenges of expressing novel engineered molecules. We have now approved 18 products using GS Gene Expression™ Technology for the treatment of cancer and other illnesses, which solidifies our leadership position with this successful technology.

Also in 2014 services for rational vaccine design and development were introduced in the market with the purpose of reducing the cost of potential failure of selected product candidates and at the same time increasing the chance of clinical success. In September Lonza launched worldwide research and commercial licensing options for the chemical microreaction technology (MRT), which allows customers access to Lonza's chemical technology for internal development and manufacture.

We completed the development of processes for manufacturing GMP-grade induced Pluripotent Stem Cells (iPSC), which enabled their use for clinical studies.

Our regional footprint continues to expand in Asia for all technologies. We increased our focus on biologics development in 2014 in this region, which provided new opportunities for immunogenicity and manufacturability assessment programs. Lonza's quality standard is being sought by the local Chinese market, too, as seen by increased interest in active pharmaceutical ingredients (APIs) development and production programs at our Nansha (CN) site.

Bioscience Solutions

The Bioscience Solutions business performance in 2014 was on a firm path with positive business development in North America, although only picking up there in the fourth quarter, as well as in China, Australia, India and Brazil. European and Japanese institutional, governmental and research organizations experienced a good first half of 2014 but suffered from the lower funding and conservative spending in the second half, which had an impact on our results. Cost-saving programs and favorable product mix helped the business achieve the expected results.

Research Products experienced a recovery in Europe although the United States, South America and Japan were below our plans for the year.

In Testing Solutions our endotoxin-testing devices had a somewhat slow start in 2014 in connection with low demand from pharmaceutical and biotech customers. Interest is increasing for our endotoxin-detection assay that does not rely on the horseshoe crab as a source of the active ingredient.

The PyroGene™ assay, the recombinant alternative to Limulus Amebocyte Lysate (LAL), uses a recombinant form of the horseshoe crab Factor C to detect endotoxin. As the PyroGene™ assay does not use horseshoe crab blood as the raw material, this alternative method reduces the demand on a natural resource and can help meet supply chain sustainability initiatives about animal testing. The first large industrial contracts for PyroGene™ were signed in 2014.

Our collaboration with Sartorius for bulk and custom-made media continued to develop well and was strongly driven by the progression of this long-term collaboration. Moda™, the paperless quality control micro-solution, developed well with a strong first half of the year from an ordering perspective and sales success in U.S. biotech companies in the second half. Also in the second half, we were successful in the Asia-Pacific region with local large pharma companies, as well as in Europe.

Corporate

Corporate million CHF	2014	2013[1]
Sales	40	50
Core result from operating activities (EBIT)	(42)	(25)
Core EBITDA	(2)	14

1 Reclassified to reflect transfer of the Visp (CH) shared infrastructure from Specialty Ingredients to Corporate

Core Results as Defined by Lonza

Lonza believes that disclosing CORE results of the Group's performance enhances the financial markets' understanding of our company because the CORE results enable better comparison across years. Therefore, the CORE results exclude exceptional items such as restructuring charges, impairments and amortization of acquisition-related intangible assets, which can differ significantly from year to year. For this same reason, Lonza uses these CORE results in addition to IFRS as important factors in internally assessing the Group's performance. See also footnote in financial highlights on page 1.

Condensed Financial Reports

Condensed consolidated balance sheet at 31 December

million CHF

	2014	2013
Non-current assets	4,565	4,490
Non-current loans and advances	1	69
Total non-current assets	**4,566**	4,559
Current assets	1,666	1,505
Current advances	0	3
Cash and cash equivalents	209	306
Total current assets	**1,875**	1,814
Total assets	**6,441**	6,373
Equity attributable to holders of the parent	2,130	2,126
Non-controlling interest	0	0
Total equity	**2,130**	2,126
Non-current liabilities	1,066	867
Non-current debt	1,693	2,221
Total non-current liabilities	**2,759**	3,088
Current liabilities	1,024	899
Current debt	528	260
Total current liabilities	**1,552**	1,159
Total liabilities and equity	**6,441**	6,373
Net debt	**2,011**	2,103

Condensed consolidated income statement

million CHF

		2014	2013
Sales		**3,640**	3,584
Cost of goods sold		(2,566)	(2,758)
Gross profit		**1,074**	826
Operating expenses		(651)	(573)
Result from operating activities (EBIT)		**423**	253
Net financing costs		(60)	(119)
Share of loss of associates / joint ventures		(84)	(29)
Profit before income taxes		**279**	105
Income taxes		(42)	(18)
Profit for the period, attributable to the equity holders of the parent		**237**	87
Basic earnings per share – EPS basic	CHF	4.56	1.67
Diluted earnings per share – EPS diluted	CHF	4.54	1.67

Condensed consolidated statement of comprehensive income

million CHF

	2014	2013
Profit for the period	**237**	87
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Re-measurements of defined benefit liability	(352)	128
Income tax on items that will not be reclassified to profit or loss	103	(45)
	(249)	83
Items that are or may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	131	(48)
Cash flow hedges	(12)	1
Income tax on items that are or may be reclassified to profit or loss	(4)	2
	115	**(45)**
Other comprehensive income, net of tax	**(134)**	38
Total comprehensive income for the period, attributable to the equity holders of the parent	**103**	125

Condensed consolidated cash flow statement

million CHF

	2014	2013
Profit for the period	**237**	87
Adjustment for non-cash items	520	556
Income tax and interest paid	(100)	(134)
(Increase) / decrease of net working capital	(94)	42
Use of provisions	(33)	(12)
Decrease of other payables net	(47)	(17)
Net cash provided by operating activities	**483**	522
Purchase of property, plant & equipment and intangible assets	(180)	(210)
Net purchase of other assets and disposals	2	15
Interest and dividend received	11	8
Net cash used for investing activities	**(167)**	(187)
Issue of straight bond	0	299
Repayment of straight bond	0	(300)
Repayment of syndicated loan	(195)	(130)
Repayment of acquisition bridge financing	(104)	(244)
Increase / (decrease) in debt	(14)	39
Increase / (decrease) in other liabilities	2	(3)
Sale of treasury shares	2	0
Dividends paid	(112)	(112)
Net cash used for financing activities	**(421)**	(451)
Effect of currency translation on cash	8	(7)
Net decrease in cash and cash equivalents	**(97)**	(123)
Cash and Cash equivalents at 1 January	306	429
Cash and Cash equivalents at 31 December	209	306

Condensed consolidated statement of changes in equity

million CHF

	Attributable to holders of the parent							Non-controlling interests	Total equity
	Share capital	Share premium	Retained earnings	Hedging reserve	Translation reserve	Treasury shares	Total		
At 1 Januar 2013	**53**	**310**	**2,352**	**1**	**(529)**	**(84)**	**2 103**	**(1)**	**2,102**
Profit for the period	0	0	87	0	0	0	87	0	87
Other comprehensive income, net of tax	0	0	83	0	(45)	0	38	0	38
Total comprehensive income for the period	**0**	**0**	**170**	**0**	**(45)**	**0**	**125**	**0**	**125**
Dividends	0	0	(112)	0	0	0	(112)	0	(112)
Recognition of share-based payments	0	0	10	0	0	0	10	0	10
Transfer of employee shares	0	0	(4)	0	0	4	0	0	0
Change in non-controlling interest	0	0	0	0	0	0	0	1	1
At 31 December 2013	**53**	**310**	**2,416**	**1**	**(574)**	**(80)**	**2,126**	**0**	**2,126**
Profit for the period	0	0	237	0	0	0	237	0	237
Other comprehensive income, net of tax	0	0	(249)	(10)	125	0	(134)	0	(134)
Total comprehensive income for the period	**0**	**0**	**(12)**	**(10)**	**125**	**0**	**103**	**0**	**103**
Dividends	0	0	(112)	0	0	0	(112)	0	(112)
Recognition of share-based payments	0	0	11	0	0	0	11	0	11
Transfer of employee shares	0	0	(2)	0	0	2	0	0	0
Sale of treasury shares	0	1	0	0	0	1	2	0	2
At 31 December 2014	**53**	**311**	**2,301**	**(9)**	**(449)**	**(77)**	**2,130**	**0**	**2,130**

Selected Explanatory Notes

1 Accounting Principles

Basis of Preparation of Financial Statements These condensed financial statements are based on the consolidated financial statements for the 12-month period ended 31 December 2014 that will be prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB).

Changes in Accounting Policies
There were no new standards or amendments to existing standards that have a material effect on Lonza's financial statements.

2 Exchange Rates

Balance sheet period-end rate CHF	31 12 2014	31 12 2013
U.S. dollar	0.99	0.89
Pound sterling	1.54	1.47
Euro	1.20	1.23

Income statement average rate CHF	2014	2013
U.S. dollar	0.92	0.93
Pound sterling	1.51	1.45
Euro	1.21	1.23

3 Restructuring Activities and Related Impairment of Assets

Year ended 31 December 2014 million CHF	[1] Specialty Ingredients	[2] Pharma& Biotech	Corporate	Total
Impairment of assets	4	11	0	15
Restructuring charges	5	0	1	6
Total	9	11	1	21

Year ended 31 December 2013 million CHF	[3] Specialty Ingredients	[4] Pharma& Biotech	Corporate	Total
Impairment of assets	6	79	0	85
Restructuring charges	6	51	5	62
Total	12	130	5	147

4 TL Biopharmaceutical Joint Venture

On 31 October 2014, Lonza announced that as a follow-up to the Board of Directors' decision in July 2013 to end the joint venture with Teva, the decision was made to write-off entirely the value of Lonza's interest in the Teva joint venture, which led to write-off of CHF 83 million. The write-off is disclosed as share of loss from associates / joint ventures. Lonza's share of the loss of the joint venture amounts to CHF 85 million for 2014.

1 Restructuring charges include restructuring activities related to the Chinese sites and other restructuring measures. The impairment of assets is related to the Chinese sites.
2 The impairment of assets is related to the Kouřim (CZ) site.
3 Restructuring charges include the closure of the Swords (IE) site and other restructuring measures. The impairment charge relates to the Guangzhou (CN) site.
4 Restructuring charges include the phasedown of the Hopkinton, MA (USA) site, the closure of the St. Beauzire (FR) site and other restructuring measures. The impairment charge relates to the Hopkinton site.

5 Dividends Paid

On 16 April 2014, the Annual General Meeting approved the distribution of a dividend of CHF 2.15 (2013: CHF 2.15) per share with respect to the 2013 financial year. The distribution to holders of outstanding shares totaled CHF 112 million (2013: CHF 112 million) and has been recorded against reserves from capital contribution of Lonza Group Ltd.

6 Operational Free Cash Flow

In 2014 and 2013, the development of operational free cash flow by component was as follows:

Components of operational free cash flow million CHF	2014	Change	2013
EBITDA	737	90	647
Change of operating net working capital	(94)	(136)	42
Capital expenditures in tangible and intangible assets	(180)	30	(210)
Disposal of tangible assets	10	(11)	21
Change of other assets and liabilities	3	(16)	19
Operational free cash flow	**476**	(43)	519

Forward-Looking Statements

Forward-looking statements contained herein are qualified in their entirety as there are certain factors that could cause results to differ materially from those anticipated. Any statements contained herein that are not statements of historical fact (including statements containing the words “believes,” “plans,” “anticipates,” “expects,” “estimates” and similar expressions) should be considered to be forward-looking statements. Investors are cautioned that all forward-looking statements involve risks and uncertainty. There are a number of important factors that could cause actual results or events to differ materially from those indicated by such forward-looking statements, including: the timing and strength of new product offerings; pricing strategies of competitors; the company’s ability to continue to receive adequate products from its vendors on acceptable terms, or at all, and to continue to obtain sufficient financing to meet its liquidity needs; difficulty to maintain relationships with employees, customers, and other business partners; and changes in the political, social and regulatory framework in which the company operates, or in economic or technological trends or conditions, including currency fluctuations, inflation and consumer confidence, on a global, regional or national basis. Except as otherwise required by law, Lonza disclaims any intention or obligation to update any forward-looking statements as a result of developments occurring after this presentation was made.

The Full-Year Report 2014 is also available in German. The English version prevails.

Full-Year Report 2014
21 January 2015

Annual General Meeting
for the 2014 Financial Year
8 April 2015
Congress Center Basel
MCH Swiss Exhibition (Basel) Ltd

Half-Year Report 2015
22 July 2015

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